EXHIBIT B

PRESS RELEASE

Former Top Executive of Investment Fund Admits $294 Million Securities Fraud Conspiracy

Thursday, November 2, 2023

For Immediate Release

U.S. Attorney's Office, District of New Jersey

TRENTON, N.J. – A former co-founder and top executive of an investment fund pleaded guilty today for conspiring to defraud dozens of victim investors out of $294 million in funds, U.S. Attorney Philip R. Sellinger announced.

John Hughes, 56, of Mahwah, New Jersey, pleaded guilty before U.S. District Court Judge Michael A. Shipp in Trenton federal court to an information charging him with one count of conspiracy to commit securities fraud.

> ***"John Hughes admitted today that he orchestrated a complex and sophisticated scheme to bilk investors of their hard-earned money. Securities fraud enforcement is a top priority for this office. Investors need to be able to trust that the people who are handling their money are behaving honorably. The defendant broke that trust to enrich himself. He will now face just punishment for his crimes."***

U.S. Attorney Philip R. Sellinger

"Hughes actively led clients to believe they were investing responsibly, putting their money into low-risk funds," Richard Langham, Acting Special Agent in Charge of the FBI's Philadelphia Division, said. "As these lies continued and the losses mounted, he engaged in a cover-up, trying to conceal the staggering fraud. Securities schemes like this can be simply devastating for the victim investors. That's why the FBI is committed to bringing financial fraud to light and perpetrators like Hughes to justice."

According to documents filed in this case and statements made in court:

Hughes co-founded Prophecy Asset Management LP (Prophecy) and worked as its chief operating officer and chief compliance officer. Prophecy solicited investments and operated funds that, at their peak, had over $360 million in assets under management. Prophecy's other co-founder worked as its CEO and portfolio manager. From January 2015 to March 2020, Hughes conspired with his co-founder to falsely represent to investors that Prophecy employed a "first-loss" trading strategy that purportedly allocated investor money to a diverse array of traders, called sub-advisors, who were required to provide cash collateral in order to gain access to the investors' pooled money and backstop any potential losses. Hughes and his co-founder also falsely represented to investors that if a sub-advisor began to experience trading losses that approached the amount of their required cash collateral, Prophecy would contact the sub-advisor to increase or replenish their collateral and, if necessary, suspend allocations and trading, or even terminate the sub-advisor if losses were substantial. These false claims induced victims to believe that Prophecy operated low-risk, transparent, and diversified funds.

In reality, over time, Hughes and his co-founder allocated most of the funds' capital to a single, primary sub-advisor without requiring him to provide cash collateral to back potential losses. They also failed to suspend his allocations or trading, even though he sustained approximately $290 million in losses that far exceeded his cash collateral. Hughes and his co-founder fraudulently concealed this and other information from victim investors, causing the victims to believe their investments were far more secure than they actually were. Hughes, his co-founder, and the sub-advisor also actively covered up these spiraling losses and collateral deficiencies by using, among other things, bogus transactions and forged documents.

In turn, the sub-advisor helped Hughes and his co-founder conceal millions of dollars in losses they caused Prophecy's funds through bad investments. They used fake documents and money that the sub-advisor provided to paper over and hide these bad investments from victim investors and Prophecy's auditor.

The fraud ultimately resulted in trading losses that wiped out Prophecy's funds and caused over $294 million in losses to the victims.

The conspiracy to commit securities fraud charge carries a maximum penalty of five years in prison and a $250,000 fine. Sentencing for Hughes is scheduled for March 21, 2024.

The U.S. Securities and Exchange Commission (SEC) also filed a civil complaint against Hughes based on the same and additional conduct.

U.S. Attorney Sellinger credited special agents of the FBI, under the direction of Acting Special Agent in Charge Richard J. Langham, Philadelphia Division, with the investigation leading to today's plea. He also expressed appreciation for the Securities and Exchange Commission, under the direction of Gurbir S. Grewal, Director, Division of Enforcement.

The government is represented by Assistant U.S. Attorney Blake Coppotelli of the U.S. Attorney's Office Economic Crimes Unit in Newark.

hughes.information.pdf

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Topic

SECURITIES, COMMODITIES, & INVESTMENT FRAUD

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USAO - New Jersey

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